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BEFORE THE ARIZONA CORPORATION COMMISSION

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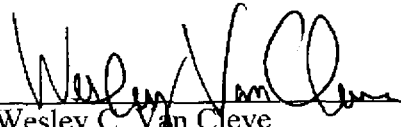
IN THE MATTER OF THE APPLICATION OF  
SAHUARITA WATER COMPANY, LLC FOR  
A RATE INCREASE.

DOCKET NO. W-03718A-09-0359

**STAFF'S NOTICE OF FILING  
RATE DESIGN DIRECT TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Rate Design Direct  
Testimony of Staff Witness Jeffrey M. Michlik in the above-referenced matter.

RESPECTFULLY SUBMITTED this 29<sup>th</sup> day of April, 2010.

  
Wesley C. Van Cleve  
Attorney, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

Original and thirteen (13) copies  
of the foregoing filed this  
29<sup>th</sup> day of April, 2010, with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Copy of the foregoing mailed this  
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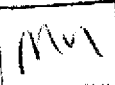
Lawrence V. Robertson, Jr.  
Attorney at Law  
P.O. Box 1448  
Tubac, Arizona 85646

Arizona Corporation Commission

**DOCKETED**

APR 29 2010

DOCKETED BY





BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF )	DOCKET NO. W-03718A-09-0359
SAHUARITA WATER COMPANY, L.L.C. )	
("SWC") FOR AN OPINION AND ORDER OF )	
THE COMMISSION (i) DETERMINING THE )	
FAIR VALUE OF THE UTILITY PROPERTY )	
OF SWC FOR RATEMAKING PURPOSES, (ii) )	
FIXING A JUST AND REASONABLE RATE )	
OF RETURN THEREON, (iii) APPROVING )	
RATES AND CHARGES DESIGNED TO )	
PRODUCE REVENUES SUFFICIENT TO )	
RECOVER SWC'S COST OF SERVICE AND )	
AUTHORIZED RATE OF RETURN, AND (iv) )	
PROVIDING FOR THE RECOVERY OF )	
CERTAIN FINANCINGS AND OPERATING )	
EXPENSES THROUGH A SURCHARGE AND )	
<u>A PASS-THROUGH TARIFF, RESPECTIVELY )</u>	

(RATE DESIGN)

DIRECT TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 29, 2010

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## **SCHEDULES**

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**EXECUTIVE SUMMARY  
SAHUARITA WATER COMPANY, LLC  
DOCKET NO. W-03718A-09-0359**

Sahuarita Water Company, LLC ("SWC" or "Company") is an Arizona Limited Liability Company. The Company is engaged in the business of providing water utility services in Sahuarita, Arizona. The Company served approximately 4,700 water customers during the test year ended December 31, 2008. The Company's current rates were approved in its original Certificate of Convenience and Necessity Application, Decision No. 59431, dated December 28, 1995.

Rate Design:

Staff recommends approval of its rate design and service charges.

Typical Bill Analysis:

The typical 5/8 x 3/4-inch meter residential customers with a median usage of 5,000 gallons would experience a \$16.15 or a 61.52 percent increase in their monthly bill, from \$26.25 to \$42.40, under the Company's proposed rates. The typical 5/8 x 3/4-inch meter residential customers with a median usage of 5,000 gallons would experience a \$3.83 or a 14.59 percent increase in their monthly bill, from \$26.25 to \$30.08, under Staff's recommended rates.

1   **INTRODUCTION**

2   **Q.     Please state your name, occupation, and business address.**

3   A.   My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the  
4       Arizona Corporation Commission (“ACC” or “Commission”) in the Utilities Division  
5       (“Staff”). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7   **Q.     Briefly describe your responsibilities as a Public Utilities Analyst V.**

8   A.   In my capacity as a Public Utilities Analyst V, I analyze and examine accounting,  
9       financial, statistical and other information and prepare reports based on my analyses that  
10      present Staff’s recommendations to the Commission on utility revenue requirements, rate  
11      design and other matters. I also provide expert testimony on these same issues.

12  
13   **Q.     Please describe your educational background and professional experience.**

14   A.   In 2000, I graduated from Idaho State University, receiving a Bachelor of Business  
15      Administration Degree in Accounting and Finance, and I am a Certified Public  
16      Accountant licensed with the Arizona State Board of Accountancy. I have attended the  
17      National Association of Regulatory Utility Commissioners’ (“NARUC”) Utility Rate  
18      School, which presents general regulatory and business issues.

19  
20      I joined the Commission as a Public Utilities Analyst in May of 2006. Prior to  
21      employment with the Commission, I worked four years for the Arizona Office of the  
22      Auditor General as a Staff Auditor, and one year in public accounting as a Senior Auditor.

23

1 **Q. What is the scope of your testimony in this case?**

2 A. I am presenting Staff's analysis and recommendations regarding Sahuarita Water  
3 Company, LLC's ("SWC" or "Company") application for a permanent increase in its rates  
4 and charges for water utility service within Pima County, Arizona.  
5

6 **Q. What is the basis of your testimony in this filing?**

7 A. Based on the adjustments and revenue requirement recommended by Staff, I will present  
8 Staff's recommended rate design.  
9

10 **BACKGROUND**

11 **Q. Please review the background of this application.**

12 A. The Company is an Arizona limited liability company. The Company is engaged in the  
13 business of providing water utility services in Sahuarita, Arizona. The Company served  
14 approximately 4,700 water customers during the test year ended December 31, 2009. The  
15 Company's current rates were approved in its original Certificate of Convenience and  
16 Necessity application, Decision No. 59431, dated December 28, 1995.  
17

18 **RATE DESIGN**

19 **Q. Would you please summarize the present rate design for the Company?**

20 A. The present monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch  
21 \$16.00; 3/4-inch \$25.00; 1-inch \$40.00; 1 1/2-inch \$75.00; 2-inch \$120.00; 3-inch  
22 \$225.00; 4-inch \$375.00; 6-inch \$750.00. No gallons are included in the monthly  
23 minimum charge. The water commodity rate for all meter sizes and customer classes is  
24 \$2.05 per thousand gallons for zero to 6,000 gallons and \$2.75 per thousand gallons for  
25 any consumption over 6,000 gallons. The present rate design also has a commodity  
26 charge for standpipe/construction water of \$4.50 per thousand gallons for all usage.

1     **Q.     Would you please summarize the Company's proposed rate design?**

2     A.     The Company's proposed monthly minimum charges by meter size are as follows: 5/8 x  
3           3/4-inch \$24.75; 3/4-inch \$37.13; 1-inch \$61.88; 1 1/2-inch \$123.76; 2-inch \$198.02; 3-  
4           inch \$396.03; 4-inch \$618.80; 6-inch \$1,237.60. Zero gallons are included in the monthly  
5           minimum charge. The Company proposes a 3-tier inverted residential commodity rate for  
6           the 5/8 x 3/4-inch meters of \$3.34 per thousand gallons for zero to 4,000 gallons, \$4.29  
7           per thousand gallons for 4,001 to 10,000 gallons, and \$5.04 per thousand gallons for any  
8           consumption over 10,000 gallons. The other proposed residential commodity rate tiers  
9           vary by meter size, but are \$3.34 per thousand gallons for the first tier and \$4.29 per  
10          thousand gallons for the second tier and \$5.04 per thousand gallons for the third tier for  
11          residential meter sizes up to 1-inch. The proposed commodity rate tiers for the larger  
12          residential, commercial, and irrigation customers vary by meter size, but are \$3.04 per  
13          thousand gallons for the first tier and \$3.99 per thousand gallons for any consumption over  
14          the first tier. The Company is proposing a commodity charge rate of \$5.04 per 1,000  
15          gallons for standpipe customers for all usage.

16  
17     **Q.     Would you please summarize Staff's recommended rate design for the Company?**

18     A.     Staff's recommended rates and charges are presented on Schedule JMM-1. Staff's  
19           recommended monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch  
20           \$16.00; 3/4-inch \$25.00; 1-inch \$40.00; 1 1/2-inch \$80.00; 2-inch \$128.00; 3-inch \$256.00;  
21           4-inch \$400.00; 6-inch \$800.00. Zero gallons are included in the monthly minimum  
22           charge. For the 5/8 x 3/4-inch and 3/4-inch meter residential customers, Staff  
23           recommends an inverted 3-tier rate design with commodity charges of \$2.36 per thousand  
24           gallons for zero to 3,000 gallons, \$3.5000 per thousand gallons for 3,001 to 9,000 gallons,  
25           and \$4.5000 per thousand gallons for any consumption over 9,000 gallons. Staff's  
26           recommended larger residential, commercial, and industrial commodity rates have two

1 tiers and vary by meter size, set at \$3.5000 per thousand gallons for the first tier and  
2 \$4.5000 per thousand gallons for any consumption over the first tier. Staff recommends  
3 no change in the commodity charge of \$4.50 per 1,000 gallons for standpipe customers for  
4 all usage.

5  
6 **Q. What is the rate impact on a typical 5/8 x 3/4-inch meter residential customer in**  
7 **Sahuarita?**

8 A. The typical 5/8 x 3/4-inch meter residential customers with a median usage of 5,000  
9 gallons would experience a \$16.15 or a 61.52 percent increase in their monthly bill, from  
10 \$26.25 to \$42.40, under the Company's proposed rates. The typical 5/8 x 3/4-inch meter  
11 residential customers with a median usage of 5,000 gallons would experience a \$3.83 or a  
12 14.59 percent increase in their monthly bill, from \$26.25 to \$30.08, under Staff's  
13 recommended rates. A typical bill analysis is provided on Schedule JMM-2.

14  
15 **Q. What does Staff recommend for service line and meter installation charges?**

16 A. Staff recommends the service line and meter installation charges as discussed in Table K-1  
17 of the previously docketed Staff Engineering Report and as presented in Schedule JMM-1.

18  
19 **Q. What does Staff recommended for other service charges?**

20 A. Staff's recommended other service charges are presented in Schedule JMM-1 and reflect  
21 Staff's experience of what are reasonable and customary charges.

22  
23 **Q. Does this conclude your rate design direct testimony?**

24 A. Yes, it does.



Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4 Inch	\$ 16.00	\$ 24.75	\$ 16.00
3/4 Inch	25.00	37.13	25.00
1 Inch	40.00	61.88	40.00
1 1/2 Inch	75.00	123.76	80.00
2 Inch	120.00	198.02	128.00
3 Inch	225.00	396.03	256.00
4 Inch	375.00	618.80	400.00
6 Inch	750.00	1,237.60	800.00
<u>Commodity Charge - Per 1,000 Gallons</u>			
<u>5/8" x 3/4" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	\$ 2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
<u>5/8" x 3/4" Meter (Residential)</u>			
First 4,000 gallons	N/A	\$ 3.3400	N/A
4,001 to 10,000 gallons	N/A	4.2900	N/A
Over 10,000 gallons	N/A	5.0400	N/A
First 3,000 gallons	N/A	N/A	\$ 2.3600
3,001 to 9,000 gallons	N/A	N/A	3.5000
Over 9,000 gallons	N/A	N/A	4.5000
<u>5/8" x 3/4" Meter (Commercial/Irrigation)</u>			
First 10,000 gallons	N/A	4.2900	N/A
Over 10,000 gallons	N/A	5.0400	N/A
First 9,000 gallons	N/A	N/A	3.5000
Over 9,000 gallons	N/A	N/A	4.5000
<u>3/4" Meter (Residential)</u>			
First 6,000 gallons	N/A	3.3400	N/A
6,001 to 15,000 gallons	N/A	4.2900	N/A
Over 15,000 gallons	N/A	5.0400	N/A
First 3,000 gallons	N/A	N/A	2.3600
3,001 to 9,000 gallons	N/A	N/A	3.5000
Over 9,000 gallons	N/A	N/A	4.5000
<u>3/4" Meter (Commercial/Irrigation)</u>			
First 15,000 gallons	N/A	4.2900	N/A
Over 15,000 gallons	N/A	5.0400	N/A
First 9,000 gallons	N/A	N/A	3.5000
Over 9,000 gallons	N/A	N/A	4.5000
<u>1" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
<u>1" Meter (Residential)</u>			
First 10,000 gallons	N/A	3.3400	N/A
10,001 to 25,000 gallons	N/A	4.2900	N/A
Over 25,000 gallons	N/A	5.0400	N/A
First 20,000 gallons	N/A	N/A	3.5000
Over 20,000 gallons	N/A	N/A	4.5000
<u>1" Meter (Commercial)</u>			
First 25,000 gallons	N/A	N/A	N/A
Over 25,000 gallons	N/A	N/A	N/A
First 20,000 gallons	N/A	N/A	3.5000
Over 20,000 gallons	N/A	N/A	4.5000
<u>1" Meter (Commercial/Irrigation)</u>			
First 10,000 gallons	N/A	3.0400	N/A
10,001 to 25,000 gallons	N/A	3.9900	N/A
First 20,000 gallons	N/A	N/A	3.5000
Over 20,000 gallons	N/A	N/A	4.5000
<u>1.5" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 50,000 gallons	N/A	3.0400	N/A
Over 50,000 gallons	N/A	3.9900	N/A

First 45,000 gallons	N/A	N/A	3.5000
Over 45,000 gallons	N/A	N/A	4.5000
<u>2" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 80,000 gallons	N/A	3.0400	N/A
Over 80,000 gallons	N/A	3.9900	N/A
First 80,000 gallons	N/A	N/A	3.5000
Over 80,000 gallons	N/A	N/A	4.5000
<u>3" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 160,000 gallons	N/A	3.0400	N/A
Over 160,000 gallons	N/A	3.9900	N/A
First 160,000 gallons	N/A	N/A	3.5000
Over 160,000 gallons	N/A	N/A	4.5000
<u>4" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 250,000 gallons	N/A	3.0400	N/A
Over 250,000 gallons	N/A	3.9900	N/A
First 265,000 gallons	N/A	N/A	3.5000
Over 265,000 gallons	N/A	N/A	4.5000
<u>6" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 500,000 gallons	N/A	3.0400	N/A
Over 500,000 gallons	N/A	3.9900	N/A
First 560,000 gallons	N/A	N/A	3.5000
Over 560,000 gallons	N/A	N/A	4.5000
Standpipe (Construction)			
All Usage	4.5000	5.0400	4.5000
<u>Other Service Charges</u>			

Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	\$ 40.00	\$ 40.00	\$ 40.00
Reconnection (Delinquent)	\$ 25.00	\$ 25.00	\$ 25.00
Reconnection (Delinquent) - After Hours	\$ -	\$ 40.00	\$ 40.00
NSF Check	\$ 15.00	\$ 15.00	\$ 15.00
Meter Test (If Correct)	\$ 25.00	\$ 25.00	\$ 25.00
Deposit	*	*	*
Deposit Interest**	6 percent	1 percent	6 percent
Reestablishment (within 12 months)	***	***	***
Late Payment Penalty	\$ 5.00	\$5.00 or 1.50 percent per month	\$5.00 or 1.50 percent per month
Deferred Payment	1.5 percent per month	1.5 percent per month	1.5 percent per month
Moving Meter at Customer Request	At Cost	At Cost	At Cost
Main Extension and Additional Facilities	At Cost	At Cost	At Cost

\* Per Commission Rule A.A.C. R-14-2-403(B)

\*\* Per Commission Rule A.A.C. R-14-2-403(B)

\*\*\* Per Commission Rule A.A.C. R-14-2-403(D) - Months off the system times the monthly minimum.

Service and Meter Installation Charges

	Total Present Charge	Proposed Meter Installation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Installation Charge	Total Recommended Charge
Service Size 5/8"	\$ -	\$ 155.00	\$ 600.00	\$ 445.00	\$ 155.00	\$ 600.00
3/4"	\$ -	\$ 255.00	\$ 700.00	\$ 445.00	\$ 255.00	\$ 700.00
1"	\$ -	\$ 315.00	\$ 810.00	\$ 495.00	\$ 315.00	\$ 810.00
1-1/2"	\$ -	\$ 525.00	\$ 1,055.00	\$ 530.00	\$ 525.00	\$ 1,055.00
2" Turbine	\$ 898.00	\$ 1,045.00	\$ 1,875.00	\$ 830.00	\$ 1,045.00	\$ 1,875.00
2" Compound	\$ 1,488.00	\$ 1,890.00	\$ 2,720.00	\$ 830.00	\$ 1,890.00	\$ 2,720.00
3" Turbine	\$ 1,378.00	\$ 1,670.00	\$ 2,715.00	\$ 1,045.00	\$ 1,670.00	\$ 2,715.00
3" Compound	\$ 1,928.00	\$ 2,545.00	\$ 3,710.00	\$ 1,165.00	\$ 2,545.00	\$ 3,710.00
4" Turbine	\$ 2,208.00	\$ 2,670.00	\$ 4,160.00	\$ 1,490.00	\$ 2,670.00	\$ 4,160.00
4" Compound	\$ 2,823.00	\$ 3,645.00	\$ 5,315.00	\$ 1,670.00	\$ 3,645.00	\$ 5,315.00
6" Turbine	\$ 4,218.00	\$ 5,025.00	\$ 7,235.00	\$ 2,210.00	\$ 5,025.00	\$ 7,235.00
6" Compound	\$ 5,498.00	\$ 6,920.00	\$ 9,250.00	\$ 2,330.00	\$ 6,920.00	\$ 9,250.00
Over 6"	\$ -	At Cost	At Cost	At Cost	At Cost	At Cost

**Typical Bill Analysis**  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,424	\$ 27.12	\$ 44.22	\$ 17.10	63.05%
Median Usage	5,000	26.25	42.40	\$ 16.15	61.52%
<b>Staff Recommended</b>					
Average Usage	5,424	\$ 27.12	\$ 31.56	\$ 4.44	16.39%
Median Usage	5,000	26.25	30.08	\$ 3.83	14.59%

**Present & Proposed Rates (Without Taxes)**  
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 16.00	\$ 24.75	54.69%	\$ 16.00	0.00%
1,000	18.05	28.09	55.62%	18.36	1.72%
2,000	20.10	31.43	56.37%	20.72	3.08%
3,000	22.15	34.77	56.98%	23.08	4.20%
4,000	24.20	38.11	57.48%	26.58	9.83%
5,000	26.25	42.40	61.52%	30.08	14.59%
6,000	28.30	46.69	64.98%	33.58	18.66%
7,000	31.05	50.98	64.19%	37.08	19.42%
8,000	33.80	55.27	63.52%	40.58	20.06%
9,000	36.55	59.56	62.95%	44.08	20.60%
10,000	39.30	63.85	62.47%	48.58	23.61%
11,000	42.05	68.89	63.83%	53.08	26.23%
12,000	44.80	73.93	65.02%	57.58	28.53%
13,000	47.55	78.97	66.08%	62.08	30.56%
14,000	50.30	84.01	67.02%	66.58	32.37%
15,000	53.05	89.05	67.86%	71.08	33.99%
16,000	55.80	94.09	68.62%	75.58	35.45%
17,000	58.55	99.13	69.31%	80.08	36.77%
18,000	61.30	104.17	69.93%	84.58	37.98%
19,000	64.05	109.21	70.51%	89.08	39.08%
20,000	66.80	114.25	71.03%	93.58	40.09%
25,000	80.55	139.45	73.12%	116.08	44.11%
30,000	94.30	164.65	74.60%	138.58	46.96%
35,000	108.05	189.85	75.71%	161.08	49.08%
40,000	121.80	215.05	76.56%	183.58	50.72%
45,000	135.55	240.25	77.24%	206.08	52.03%
50,000	149.30	265.45	77.80%	228.58	53.10%
75,000	218.05	391.45	79.52%	341.08	56.42%
100,000	286.80	517.45	80.42%	453.58	58.15%